

CREDIT OPINION

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San Diego County, CA

Update to credit analysis

Summary

[San Diego County](#) (Aaa stable) benefits from an immense and diverse economy, with above-average resident wealth measures, and strong financial profile. The county's credit quality is enhanced by its proactive and conservative management with demonstrated commitment to ensuring fiscal stability. The county's moderate debt and OPEB burden, and its manageable pension liabilities and general fund obligations, also support credit quality.

On October 5, 2023, Moody's assigned an Aa1 rating to the county's 2023 certificates of participation (COPs).

Credit strengths

- » Robust and expanding economy
- » Above average resident wealth levels
- » Strong financial profile characterized by significant reserves and liquidity
- » Proactive and conservative fiscal management

Credit challenges

- » Elevated pension burden for the rating level
- » Growing environmental risks including variable precipitation and wildfire

Rating outlook

The stable outlook reflects the expectation that the county's expanding economy will continue to support favorable wealth measures and revenue increases. The county's prudent fiscal management and adopted policies will also maintain sound financial performance with manageable leverage.

Factors that could lead to an upgrade

- » Not applicable

Factors that could lead to a downgrade

- » Economic contraction resulting in material deterioration of resident wealth measure or economic activity
- » Significant narrowing of reserves and liquidity
- » Cost pressures that result in budgetary imbalance or weakened financial performance
- » Meaningful increase in liabilities

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Key indicators

Exhibit 1

San Diego (County of) CA

	2019	2020	2021	2022	Aaa Medians
Economy					
Resident income ratio (%)	110.9%	110.1%	111.0%	N/A	122.6%
Full Value (\$000)	\$536,888,809	\$567,195,439	\$598,255,472	\$618,546,467	\$56,143,782
Population	3,316,073	3,323,970	3,296,317	N/A	411,102
Full value per capita (\$)	\$161,905	\$170,638	\$181,492	N/A	\$134,157
Economic growth metric (%)	N/A	0.0%	0.6%	N/A	-0.1%
Financial Performance					
Revenue (\$000)	\$4,729,066	\$5,235,474	\$5,685,609	\$5,879,492	\$512,430
Available fund balance (\$000)	\$2,484,943	\$2,547,901	\$2,348,498	\$2,376,639	\$189,383
Net unrestricted cash (\$000)	\$3,397,476	\$3,727,911	\$3,818,952	\$4,070,802	\$343,404
Available fund balance ratio (%)	52.5%	48.7%	41.3%	40.4%	39.4%
Liquidity ratio (%)	71.8%	71.2%	67.2%	69.2%	70.0%
Leverage					
Debt (\$000)	\$1,365,631	\$1,292,744	\$1,255,226	\$1,405,390	\$394,307
Adjusted net pension liabilities (\$000)	\$10,482,135	\$13,154,823	\$17,136,019	\$14,952,254	\$526,820
Adjusted net OPEB liabilities (\$000)	\$151,264	\$140,266	\$131,139	\$104,617	\$97,045
Other long-term liabilities (\$000)	\$410,074	\$436,230	\$453,604	\$462,325	\$27,899
Long-term liabilities ratio (%)	262.4%	287.0%	333.8%	287.9%	207.0%
Fixed costs					
Implied debt service (\$000)	\$106,210	\$99,568	\$92,577	\$88,041	\$27,046
Pension tread water contribution (\$000)	\$403,295	\$461,807	\$503,223	\$345,808	\$14,911
OPEB contributions (\$000)	\$18,892	\$18,472	\$17,611	\$17,008	\$2,818
Implied cost of other long-term liabilities (\$000)	\$27,953	\$29,898	\$31,240	\$31,816	\$1,585
Fixed-costs ratio (%)	11.8%	11.6%	11.3%	8.2%	8.9%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The Economic Growth metric cited above compares the five-year CAGR of real GDP for San Diego-Chula Vista-Carlsbad, CA Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, San Diego (County of) CA's financial statements and Moody's Investors Service, US Bureau of Economic Analysis

Profile

San Diego County is the southernmost major metropolitan area in the [State of California](#) (Aa2 negative). The county covers 4,261 square miles, extending 70 miles along the Pacific Coast from the Mexican border to [Orange County](#) (Aa1 stable). With a population of 3.3 million, San Diego County is the second most populous county in California and fifth largest county by population in the nation. The county is governed by a five-member board of supervisors elected to four-year terms in district nonpartisan elections.

Detailed credit considerations

Economy: immense and growing economy with above average wealth levels

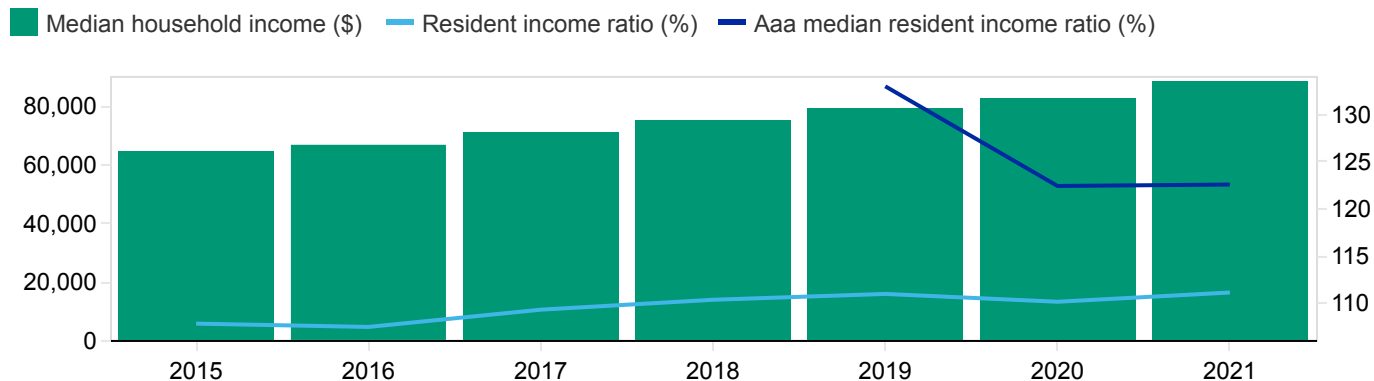
The county's immense economy will continue to expand, supporting above average resident wealth measures. Over the past five years, at 0.6%, the county's compound annual growth rate (CAGR) in gross domestic product (GDP) has edged out that of the US. While the county has sizable exposure to the tourism industry, visitor spending now exceeds levels prior to the pandemic, and visitor numbers are recovering.

The county also benefits from continued economic diversification, benefiting from military, government, professional services, and technology sectors that serve to stabilize the economy. This includes the presence of several US Navy Bases and Marine Corps Base Camp Pendleton, making military presence an important economic driver of the economy.

This diversity, with close to one-third of employment in the innovation and technology and professional services sectors, supports a median household income equal to 110.0% of the US. As of June 2023, the county's unemployment rate of 4.0% falls below the state's rate at 4.9%, and remains in line with the US at 3.8%. The region's quality of life and thriving life sciences/biomedical and technology oriented industries attract a well-educated, talented workforce and well-off retirees, which will continue.

Assessed value per capita exceeds the median and will continue to strengthen, supported by ongoing residential and commercial development, coupled with the mechanics of Prop 13. Over the past decade, assessed value has increased at an average annual rate of 5.9%, reaching an AV approaching \$717.7 billion as of fiscal 2024. While vacancy rates in downtown San Diego remain elevated, commercial properties account for only 13% of the county's AV. The county is largely residential, and increases in home values, with a median price of \$750,000, will continue to support AV increases. County officials have conservatively projected annual AV growth of 3.5% for fiscal 2025, with potential for out performance.

Exhibit 2

Resident Income

Source: Moody's Investors Service

Financial operations: prudent budgeting and adopted policies support sound finances

The county's conservative budgeting practices, adopted policies and growing revenue streams will continue to support sound financial performance. Intergovernmental revenues comprise the bulk of county funding, representing close to 64% of governmental revenues. While future state budgets represent a risk, these revenues have demonstrated favorable increases, supported by federal and state COVID 19 grants and FEMA reimbursements. Property and sales taxes, along with charges for services also represent key local revenue streams for the county and similarly continue to demonstrate growth, with continued increases budgeted for fiscal 2024.

For fiscal 2023, the county projects only a slight decrease in general fund balance of \$52.8 million, with a similar use of reserves budgeted for fiscal 2024. While the county's projected ending unassigned general fund balance in fiscal 2023 of \$746.7 million remains below a targeted minimum reserve of \$885.7 million, county officials report that the county remains on target to meet this minimum reserve target by the end of fiscal 2024, in part supported by FEMA reimbursements. In fiscal 2022, available general fund reserves of \$1.6 billion equal to a sound 32.6% of revenues. Total governmental available fund balance and net current assets approaching \$2.4 billion equal a similarly strong 40.4% of revenue.

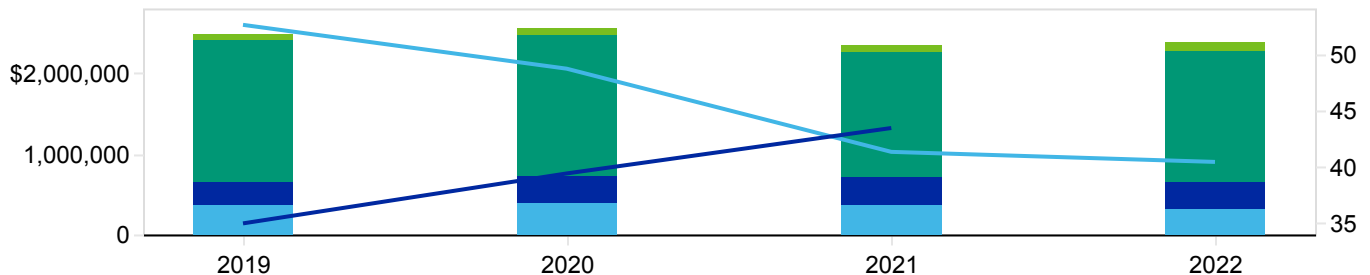
The county's fiscal 2024 budget, approaching \$8.2 billion, represents an 11% increase from fiscal 2023. Public safety and health and human services together account for the bulk of general fund spending at 86.1%, and officials report that they have faced challenges in hiring law enforcement and other personnel with a current countywide vacancy rate of around 11%. Positively, the county is settled with all of its bargaining units through fiscal 2025, providing additional budgeting certainty and enhancing the county's ability to attract and retain personnel. The 2024 budget includes a \$51.4 million use of general fund balance with \$52.8 million use in fiscal 2025, the second year of the county's two-year operational plan. These amounts remain consistent with prior year allocations of reserves and are utilized for one-time spending.

The county's fiscal 2024 budget includes additional spending in mental health, housing, and safety net services and capital investments. The county has received \$653.5 million in federal ARPA funding to address costs associated with the pandemic, of which \$296.4 million has been spent through the end of fiscal 2023.

Exhibit 3

Fund Balance

General fund Other governmental funds Internal service funds Business-type activities
Available fund balance ratio (%) Aaa median available fund balance ratio (%)



Source: Moody's Investors Service

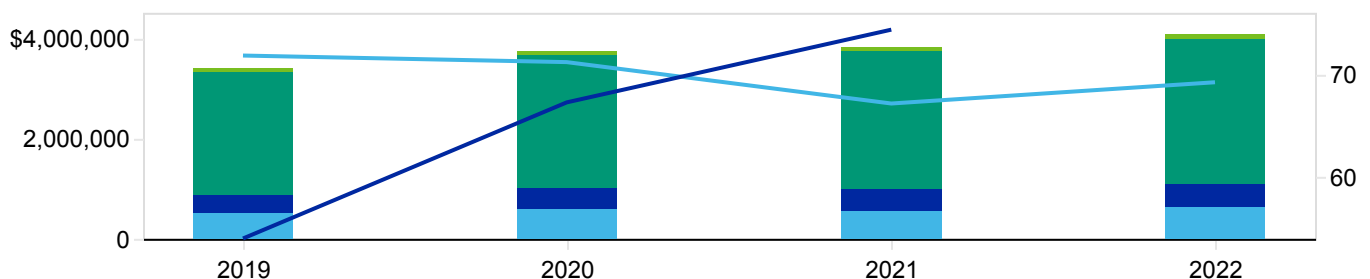
Liquidity

Similar to the county's reserve position, its liquidity position is strong. In fiscal 2022, net unrestricted cash approaching \$4.1 billion equaled a robust 69.2% of revenues. General fund unrestricted cash balance was also strong at close to \$2.9 billion or an ample 68.3% of general fund revenue.

Exhibit 4

Cash

General fund Other governmental funds Internal service funds Business-type activities Liquidity ratio (%)
Aaa median liquidity ratio (%)



Source: Moody's Investors Service

Leverage: manageable debt with somewhat elevated pension liabilities

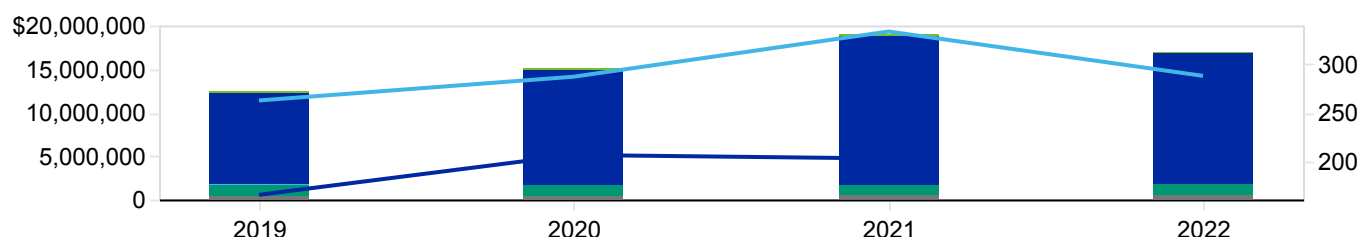
The county's leverage will remain manageable given continued revenue growth and limited borrowing needs. As of fiscal 2022, the county's leverage equaled a somewhat elevated 287.9% of revenues, however fixed costs remain modest at 8.2% of revenue. Following the issuance of the 2023 COPs, the county will have close to \$400 million in outstanding COPs and lease revenue bonds. The county also has \$211.2 million in outstanding pension obligation bonds (Aaa stable.)

General fund obligations, however, account for a modest share of general fund revenues at 1.7% in fiscal 2024. By policy, debt service costs may not exceed 5% of general fund revenues, and the county will remain significantly below this figure.

Exhibit 5

Total Primary Government - Long Term Liabilities

■ Governmental Debt ■ Business-Type Activity Debt ■ Adjusted net pension liabilities
 ■ Adjusted net other post-employment liabilities ■ Other long-term liabilities — Long-term liabilities ratio (%)
 — Aaa median long-term liabilities ratio (%)



Source: Moody's Investors Service

Legal security

The proposed 2023 COPs are secured by base rental payments received by the San Diego County Capital Asset Leasing Corporation from the county under a facility lease. The base rental payments are payable by the county from any legally available funds for the use and occupancy of certain leased properties, which we view as "more essential".

The leased assets securing the 2023 COPs consist of the county's youth transition campus, the Rancho San Diego library, the Sheriff's Alpine station and a crime lab. The county's outstanding COPs and lease revenue bonds are also secured by lease payments made by the county for use and occupancy of various leased assets that we view as "more essential". Lease rental payments are payable from any source of legally available funds of the county.

Legal provisions for the 2023 COPs include a requirement for "all risk" insurance against loss or damage to the related leased properties, as applicable, including flood, but excluding earthquake, as well as rental interruption insurance for 24 months. While the COPs lack a debt service reserve fund, the county's manageable level of general fund obligations and sound liquidity serve to offset this risk.

Debt structure

All of the county's outstanding obligations consist of fixed rate debt. Amortization of the county's COPs is average with approximately 52% of principal repaid within 10 years.

Debt-related derivatives

The county has no debt-related derivatives.

Pensions and OPEB

The county's pension burden is somewhat elevated and represents the bulk of the county's leverage, but will remain manageable. The county provides pension benefits for employees that are administered by the San Diego County Employees Retirement Association (SDCERA). Positively, the county has been lowering its discount rate and investment return assumptions in recent years thereby increasing contributions to address its liabilities.

In fiscal 2022, the county reported a net governmental pension liability totaling \$2.2 billion using a weighted average discount rate of 7.00%. Moody's adjusted net pension liability (ANPL) for the county was much higher at \$14.9 billion using a 3.0% discount rate under our methodology for adjusting reported pension and OPEB data.

The county's pension contributions represented 11.8% of operating revenue in fiscal 2022, up from 8.9% of operating revenue seven years ago. Positively, the county's governmental pension contribution continues to exceed Moody's calculated "tread water" level, indicating the unfunded net pension liabilities are likely to decline.

The county's adjusted net OPEB liability is much smaller at \$104 million, and the plan has been closed, with around 3,700 employees beneficiaries of the prior plan.

ESG considerations

San Diego (County of) CA's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 6

ESG Credit Impact Score

CIS-2

Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.



Source: Moody's Investors Service

San Diego County's ESG CIS impact score is a 2, reflecting moderately negative exposure to environmental risks, relatively neutral exposure to social risks, and strong governance.

Exhibit 7

ESG Issuer Profile Scores

ENVIRONMENTAL

E-3

Moderately Negative



SOCIAL

S-2

Neutral-to-Low



GOVERNANCE

G-1

Positive



Source: Moody's Investors Service

Environmental

San Diego County's overall environmental issuer profile score is moderately negative (**E-3**). The county's greatest physical climate risk is its exposure to extreme drought conditions. Positively, it is currently able to import roughly 70% of its water supply from outside of the county. San Diego County Water Authority, CA (Aa2 stable), which serves around 97% of the county's population, has made concerted efforts to encourage conservation and to diversify purchased water supplies, serving as a direct and continuing response to this long-term challenge. The county has also made investments as a member agency to the East County Water Purification Program, which will use technology to purify East San Diego County's recycled water to produce up to 30% drinking water supply.

A significant portion of the county is also within elevated or extreme wildfire zones and the jeopardy of this exposure is exacerbated by climate change trends that give rise to warmer and dryer conditions. However, the county's deep and experienced management team has prioritized related disaster preparedness in recent years and has invested more than \$625 million on wildfire prevention and response coordination. In addition, the county has developed emergency agreements with neighboring counties and unique agreements with the Marines and Navy to provide aircraft and fire engines that could be requested for fire suppression and medevac services.

Social

Exposure to social risk is neutral-to-low (**S-2**). Housing costs pose a moderately negative risk, because of the high need for affordable housing, which could lead to higher social spending than current levels. In recent years, San Diego County has spent approximately \$250 million annually on various programs for the homeless and an estimated \$50 million on affordable housing.

Governance

San Diego County's strong governance is reflected in a positive issuer profile score of **G-1**. The county demonstrates proactive and prudent fiscal management with conservative budgetary practices, long term financial planning, an active approach to addressing long-term liabilities, and institutionalized policies for reserve, debt, and investments. In addition, the county has in-depth disclosures that provide a high level of transparency.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Cities and Counties Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 8

San Diego (County of) CA

	Measure	Weight	Score
Economy			
Resident income ratio	111.0%	10.0%	Aa
Full value per capita	217,716	10.0%	Aaa
Economic growth metric	0.6%	10.0%	Aaa
Financial Performance			
Available fund balance ratio	40.4%	20.0%	Aaa
Liquidity ratio	69.2%	10.0%	Aaa
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	287.9%	20.0%	A
Fixed-costs ratio	8.2%	10.0%	Aaa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Aa1
Assigned Rating			Aaa

The complete list of outstanding ratings assigned to the San Diego (County of) CA is available on their [issuer page](#). Details on the current ESG scores assigned to the San Diego (County of) CA are available on their [ESGView page](#).

Sources: US Census Bureau, San Diego (County of) CA's financial statements and Moody's Investors Service

Appendix

Exhibit 9

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US City and Counties Methodology](#).

Source: Moody's Investors Service

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